



2007-2010 *IPERS Strategic Plan*

MISSION

Provide a cost-efficient statewide retirement plan that helps employers recruit and retain employees in public service and allows them to care for themselves in retirement.

VISION

IPERS will be a fully funded retirement plan that is valued by Iowa's public employers and employees for its benefits, excellent customer services, and cost-effective management.

GOVERNANCE

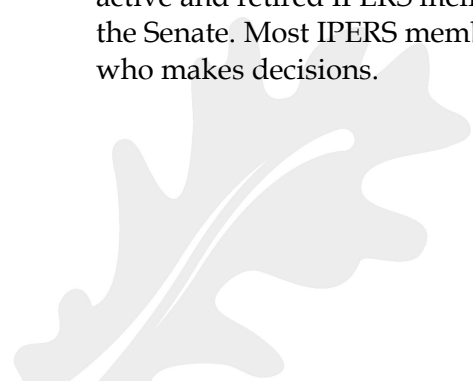
Status and Trends

Plan Sponsors

The IPERS retirement plan is designed and funded in a political environment. The legislature and governor are the plan sponsors who determine contributions and benefits offered by the plan. Changes in the governor's office and key legislative committee positions can occur every two to four years because of elections.

Boards

IPERS does not have a board of trustees whose authority spans all IPERS responsibilities. The Benefits Advisory Committee (BAC), which includes member and employer representatives, addresses benefits and is advisory only. The IPERS Investment Board has policymaking authority over the investments and actuarial areas but has not engaged in questions of retirement benefits. The Investment Board adopts funding assumptions for actuarial valuations but is unable to adjust contribution rates for regular IPERS members. The active and retired IPERS members on the Investment Board are appointed by the governor and confirmed by the Senate. Most IPERS members who were surveyed reported a lack of awareness of how IPERS works and who makes decisions.



Governance Goals and Objectives

- Goal** Establish an organizational structure, policies, and business practices that ensure decisions are in the members' best interests and the trust fund is used solely to provide member benefits.
- Objective 1** Seek legislative changes to the current IPERS board structure if necessary to create a unified governing body with comprehensive fiduciary responsibility and authority over investments, benefits, and plan administration.
- a. Review the current structure and update the previous governance study.
 - b. Develop a BAC and Investment Board recommendation to submit to the legislature.
- Objective 2** Increase the boards', plan sponsors', and key stakeholders' awareness of fiduciary responsibility, and investment, actuarial, and risk management principles.
- a. Review and update the boards' statements of roles and responsibilities.
 - b. Establish minimum educational standards and continuing education requirements for Investment Board members that result in flexible, customized educational plans.
 - c. Develop clear and concise communications tools for boards, plan sponsors, and key stakeholders.
- Objective 3** Obtain waivers or exemptions to unfunded state mandates that add unnecessary costs or interfere with the legal duty to use the trust fund for the exclusive benefit of the members.
- a. Identify state mandates that interfere or potentially interfere with the ability of IPERS to manage the trust fund exclusively for members' benefits.
 - b. Build support in legislative committees, the governor's office, the Department of Management, the Department of Administrative Services, and member and employer associations represented on IPERS' boards by educating them on the legal responsibilities of a fiduciary for a trust fund.
 - c. Develop and file legislative proposals to remove state mandates that interfere with the exclusive benefit rule.
- Objective 4** Find a funding source, other than the trust fund, to cover IPERS' expenses to fulfill mandated Social Security administrator responsibilities, which are unrelated to members' IPERS benefits.
- a. Complete a gap analysis of responsibilities and current practice.
 - b. Identify one-time and ongoing administrative costs and needed staffing.
 - c. Evaluate funding options such as employer fees or General Fund appropriations.

FUNDING

Status and Trends

Assets

The market value of the IPERS Trust Fund exceeds \$20 billion. There are two sources of income, investments and contributions. IPERS is unable to adjust contribution rates for most members to respond to annual actuarial valuations. The legislature approved a phased contribution rate increase effective July 2007. The total increase of two percentage points was lower than recommended. However, investment returns have been higher than expected since the original recommendation for a rate increase. More than 88 percent of \$924,378,316 in benefits paid in fiscal year 2006 stayed in Iowa.

Liabilities

IPERS' promised retirement benefits are its liabilities. The cost of benefits has increased due to the increasing age of members entering IPERS, longer life spans, and benefit changes. The contribution rate for regular members continues to be less than the actuarial rate needed to meet the liabilities.

Percent Funded

At the end of fiscal year 2006 the ratio of actuarial assets to liabilities for the current benefits was 88.4 percent. Benefit increases and transfers to the Favorable Experience Reserve Account are prohibited when IPERS is not fully funded unless there is a contribution increase to pay for the new benefit.

Funding Goals and Objectives

Goal Obtain and maintain full funding by collecting contributions and earning returns on investments necessary to pay expenses and all promised benefits.

- Objective 1** Adopt a legislative proposal that authorizes IPERS to adjust rates for regular members as it does for other members.
- Reach consensus among board members and associations represented on the boards on a proposal.
 - Draft an IPERS-proposed bill that includes transparent and accountable controls over rate adjustments to address any budgetary concerns.
 - Develop clear and concise communication tools describing why the change is in the best interests of members, employers, IPERS, and the plan sponsors.
- Objective 2** Achieve improved investment returns from active investment management.
- Maintain risk budgeting processes to provide a clear view of risk tolerance.
 - Restructure the investment portfolio as necessary to improve returns within risk budgets.
 - Develop a legislative proposal changing the expense cap to support new investment strategies.
- Objective 3** Revise the current funding policy to make it consistent with new laws calling for full funding (100 percent funding ratio of actuarial assets to liabilities).
- Research key items covered in a funding policy.
 - Recommend to the board revisions to the current policy.

RETIREMENT PLAN

Status and Trends

Plan Type

Iowa law authorizes IPERS to administer a defined benefit plan (a lifetime monthly annuity based on a formula that includes wages and years worked). The plan provides a cost effective, secure basic retirement benefit that should be preserved. The defined benefit plan attracts and retains career employees. Many employers are moving away from offering traditional defined benefit plans and moving towards defined contribution plans, e.g. 401(k)-type, which may serve a more mobile workforce. Some public employers are combining features of both retirement plans to meet changing workforce expectations.

IPERS members who were surveyed reported little awareness of the IPERS plan beyond monthly pension benefits. Many people are unaware of the differences between defined contribution and defined benefit plans, making it difficult for them to compare risk and value.

Recruitment and Retention

The IPERS plan allows retirement as early as age 55 (age 50 for sheriffs and deputies). Normal retirement age, the point at which there is no benefit reduction for early retirement, is age 65, or earlier if the member meets the Rule of 88, or age 62 with 20 years of service. These normal retirement age provisions are less than that for social security benefits.

An increasing number of people are reaching retirement age. These baby boomers reportedly plan to continue working, or work full- or part-time after they retire. IPERS' fastest growing membership segment is re-employed retirees.

Members who want to retire early because of health concerns or move to different careers are well served by the IPERS early normal retirement provisions. However, the IPERS plan also must provide comparable benefits for members who want to continue working and for employers who want to retain workers.

Some employers want to make it easier for retirees to collect a pension and return to public employment. At the same time, many employers continue to offer early retirement incentives. These two conflicting positions create dilemmas in the area of funding and IRS compliance.

Plan Implementation

The current definition of covered wages causes confusion, allows some to manipulate wages to increase benefits, and results in appeals. Many bonuses are included as covered wages. Most appeals and wage adjustments are due to employers incorrectly covering cafeteria plans.

Using the average of the highest three years' wages in the benefit calculation allows some members to receive a pension disproportionate to the contributions made over their work life. A 2006 law change adds a fourth year as a spiking control intended to reduce abuses.

Cost of Living

The monthly IPERS benefit loses value because there is no cost-of-living adjustment to retirees' monthly pensions. There are two different once-a-year payments intended to offset some negative effects of inflation. One is guaranteed; one is not. Neither payment has been adjusted for inflation for several years.

Retirement Plan Goals and Objectives

- Goal 1** Assess options that compliment the core defined benefit plan to better recruit and retain public employees.
- Objective 1** Study other plan structures that use features of both defined benefit and defined contribution plans.
- Evaluate if a supplemental contribution program could be useful or whether changes to the core defined benefit are needed.
 - Conduct timely actuarial studies and develop position papers on proposals considered by the legislature's Public Retirement Systems Committee.
- Objective 2** Analyze retention options.
- Identify changes to the current plan that provide incentives for employees to continue to work beyond the earliest normal retirement age.
 - Research how phased retirement may aid retention.
- Goal 2** Assess retirement plan options that better support members in retirement.
- Objective 1** Offer the legislature alternatives for cost-of-living adjustments.
- Objective 2** Evaluate how additional savings programs could be used to assist future retirees.
- Goal 3** Change plan features that create inequities, add unnecessary complexity, or result in delays for members and employers.
- Objective 1** Simplify the definition of IPERS-covered wages.
- Identify compensation that is used to manipulate wages to increase pensions, such as bonuses.
 - Identify the difficulties employers have applying the current definition.
 - Develop a BAC-supported legislative proposal that revises the definition.
- Objective 2** Streamline the appeal process to resolve member and employer appeals promptly.
- Review the current process to identify steps that can be simplified or eliminated.
 - Develop a BAC-supported legislative proposal that eliminates steps while protecting the rights of appellants.

PLAN ADMINISTRATION

Status and Trends

Baby boomer bubble

As more baby boomers retire, membership demands will increase at the same time experienced IPERS employees retire. The average age of IPERS staff is 45.44, and 16 percent of the staff are at least age 55. Implementing I-Que¹ to automate work, streamline processes, and give members and retirees account access should increase efficiencies and lessen long-term workload demands on staff; however, short-term demands will increase.

Service quality and costs

IPERS needs efficient and economical ways to reach over 300,000 members and almost 2,400 reporting employers. Expectations continue to increase for 24x7 on-line accessibility. Surveys and focus group results show that IPERS' service quality rates high, but that IPERS should provide additional outreach and education.

IPERS currently has low benefit administration costs and staffing ratio compared to peers. IPERS' investment management costs are lower than that allowed by Iowa law.

The focus on IPERS' funding status, a national movement away from defined benefit plans, and competition from alternative plans will reinforce the need to keep administrative costs low and service quality high. The market value of the IPERS Trust Fund now exceeds \$20 billion, increasing IPERS' visibility.

Plan Administration Goals and Objectives

Goal Provide high-quality, low-cost services and administrative support.

Objective 1 Increase electronic-business.

- a. Implement I-Que self-service for employers and members.
- b. Increase electronic communication.

Objective 2 Match people, skills, and positions with changing priorities and needs.

- a. Develop and coordinate with I-Que a transition management plan.
- b. Identify upcoming IPERS staff retirements and develop a workforce management and succession plan.
- c. Contract with outside counsel for investments.

Objective 3 Maintain efficient, safe, and secure infrastructure.

- a. Implement I-Que.
- b. Revise IPERS' records management plan to address electronic records.
- c. Collaborate with other public pension systems and agencies when shared or purchased administrative services are mutually beneficial.

¹



IPERS Quest for Excellence matches modern benefits administration technology with skilled staff to increase smart, secure business practices.